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OUR 50TH YEAR

SAFEWAY STORES, INCORPORATED · ANNUAL REPORT 1975

Founder M. B. Skaggs in his first store, at American Falls, Idaho in 1915. Front cover shows exterior of Store #1 there in 1928, after whole town was moved for the new Snake River dam.

OUR 50TH YEAR

HIGHLIGHTS 1975

	1975	1974
Sales	$9,716,889,000	$8,185,190,000
Net Income	$148,629,000	$79,205,000*
Per Share	$5.74	$3.07*

*Reflects adoption in 1974 of LIFO method of valuation of certain inventories.

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TO SAFEWAY SHAREHOLDERS, CUSTOMERS AND EMPLOYEES:

The highlight figures opposite attest to our best year to date. Although aided by a 53-week fiscal period, they reflect significant gains in our efforts to satisfy the shopping needs of an expanding family of customers. And most of the gains were real, not price-inflated; we registered 1.287 billion customer transactions in 1975 compared with 1.161 billion in 1974, an increase of 11%.

Roots go back to 1915, but Safeway's entity as a corporation dates from 1926. As indicated by the theme of this report, we have just completed our 50th year. The financial tables document a nearly two-hundred-fold growth in sales from a $50 million base in 1926. We did not quite reach $10 billion during the fiscal year but expect to exceed that rate shortly. This is an important milestone not attained by any other retail food firm. To us it reflects not only a half century of growth in sales and profits but also a history of service to millions of food shoppers and of employment to many thousands of loyal co-workers. Our payroll has increased from about 3,500 persons in 1926 to over 125,000 today.

We have had growth, too, in size of stores. Mr. Skaggs' first outlet, pictured opposite, would fit inside the frozen food section of a modern Safeway store. And the trend is continuing. A major share of future units will be over 30,000 square feet in size and will stock more than 12,000 different items in a wide variety of merchandise categories – both food and non-food. This "superstore" concept has emerged largely in response to consumer demands for more one-stop shopping. Fuel costs and time constraints have caused busy shoppers to seek out those stores where they can find maximum selections under one roof. Customer response to new and expanded product categories (for example, plants and flowers) has been highly encouraging.

During the year Safeway and its subsidiaries opened 111 new stores and closed 86 obsolete ones, for a final total of 2,451. These numbers do not fully reflect the extent of upgrading. Often we already have a good location in a particular area, so when larger facilities become needed it may be more effective to enlarge and remodel the existing building than to move to a new one. Such remodeling projects during 1975 permitted the addition of over seventy thousand lineal feet of display space – the equivalent of the total display facilities of 28 new stores.

Just after year-end a new state was added to the Safeway roster, with the opening of our first store in Memphis, Tennessee. Customer reaction has been very gratifying and we look forward to a successful future as a part of that community.

The dividend rate was raised to 50 cents per share in the third quarter, resulting in a sixth consecutive annual increase in payout. As detailed elsewhere in this report, the average rate of gain in dividend payments has been keeping ahead of increases in the Consumer Price Index.

R. E. Templeman, Vice President and Manager of our Oklahoma City Division, retired at the end of the year after more than 38 years of distinguished service. Two new Vice Presidents, Gerald V. Curtright and William M. Langley, were elected to that post during 1975.

Even though we see a welcome slowing of inflation rate increases, basic costs of doing business continue to escalate. Under these conditions it is all-important to maintain sales momentum to achieve added revenue needed to help absorb these costs. In this regard we have inaugurated major sales incentive programs for Store Managers, offering opportunities for substantial rewards. We believe these will encourage initiative in finding ways to increase customer satisfaction and at the same time strengthen participation of our Managers in the development and growth of their Company.

Consumers are regaining confidence in the future, and economic prospects appear favorable for retailing. We look forward to our next half century.

W. A. Mitchell

March 1, 1976

President and Chief Executive Officer

THE BEGINNING

The record will show that Safeway came into being just fifty years ago, on March 24, 1926, upon payment of a tax of $960 and a recording fee of $15 to the State of Maryland.

But for origins that largely shaped the destiny of this Company, we need to look further back to a tiny grocery store in American Falls, Idaho, in the year 1915. That was the first store operated by the man recognized as Safeway's founder, Mr. Marion Barton ("M.B.") Skaggs.

The store was built by M.B.'s Baptist minister father — with his own hands, borrowed money, and on a rented site — to meet what he saw as a critical need of the hard-pressed wheat farmers of the area. They were dependent on storekeepers who sold on credit and charged exorbitantly for it.

The Reverend Skaggs' idea was to sell for cash at a saving; to be a good merchant with concern for quality and the needs of his customers. M. B. Skaggs was one of his six sons (all of whom became grocers). M.B. bought this store from his father in 1915 for $1,088, and set out to add a few ideas of his own. As he tells it:

"That was my good father's principle. I guess I was more selfish – certainly more practical. I saw that my opportunity lay in doing the same basic things as my father had done. But I think I also realized, even then, that if I would be content with a very small margin of profit I could build a correspondingly larger business .."

Correspondingly larger is what the business became, soon after M.B. took over that first store in 1915. In less than 11 years, with the help of his five brothers and many other grocery store pioneers, he built the Skaggs organization to 428 retail units serving cities and towns in ten states.

These Skaggs stores were joined in 1926 to the 322 former Sam Seelig stores of Southern California (which had adopted the name "Safeway" the previous year) to form the starting organization of the new Safeway company. M. B. Skaggs was Chief Executive in charge of all operations, and his slogan was "Distribution Without Waste." He was to lead Safeway for eight years before relinquishing direction to Lingan A. Warren in 1934.

M.B.'s first five years witnessed a most rapid expansion, largely through acquisitions, until in 1931 the Company reached virtually its present geographical extent in the U.S. and Canada. That year was the high point in **number** of stores, at 3,527. All these were tiny by today's standards (see "Stores," and statistical table).

No history of Safeway's beginning would be complete without mention of others who played a large part. There was Charles E. Merrill (whose firm was then known as Merrill Lynch & Company), the financial "architect" in the formation of Safeway. There was Sam Seelig, whose grocery chain in Southern California grew brilliantly until he left it in 1924 to enter the real estate business. There was W. R. Weldon, technically Safeway's first President, the wholesaler who had gained control of the Sam Seelig stores and recommended M. B. Skaggs to Mr. Merrill. And there were many, many more.

Robert A. Magowan, President from 1957 to 1966 (and Chairman and Chief Executive Officer from 1955 to 1969), has said that the greatest single factor in Safeway's success has been "the spirit with which this Company was imbued right from the start by Mr. M. B. Skaggs."

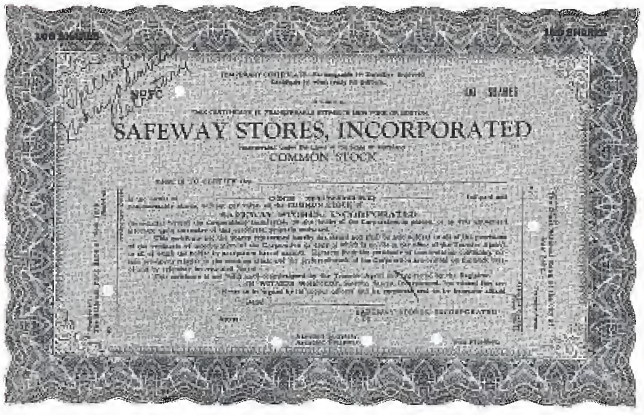
And W. S. Mitchell, Safeway's President today, on being elected to that post in 1971 told an interviewer: "We'll still be operating on the fundamentals laid down by Mr. Skaggs .."

Leaders of former Sam Seelig half of Safeway consolidation in 1926. W. R. H. Weldon (2nd from r.) presides

Nostalgic street scene in So California town of Norwalk circa 1930 Safeway had big awning, wide open front

Remember when ground beef was ten cents a pound? Here it is in a Portland, Oregon Safeway in the early thirties

These are the Skaggs brothers, grocers all Clockwise from top left are O.P., S.A., M.B., L.S., L.L., and L.J



This blank 100-share stock certificate, worth $1,087 on issue in 1926, would be worth about $400,000 today (year-end 1975)

Early Safeway people pose with "iron horse" that sped them to Los Angeles for a meeting in the late twenties

It's crowded, but no one seems to mind A Piggly Wiggly unit in Seattle, before store's name change to Safeway

STORES

One well-recognized reason for Safeway's successful growth is its dedication to a continuous program of building and remodeling stores.

This is no new thing for the Company. Our founder, M. B. Skaggs, expected each new store to develop the funds and personnel needed to open another new one as soon as possible. As far back as 1928 the Company opened 201 stores in a single year (aside from acquisitions), and 329 more in the following year.

Of course those early stores were minuscule by today's standards (M.B.'s first was only 576 square feet overall). At the time of our incorporation in 1926, a Safeway store typically had 1,000 square feet, 700 items, 3 or 4 employees, $70,000 a year sales, and represented an investment of perhaps $10,000. Today one of our new supermarkets typically has 27,700 square feet (a third of those now under construction are over 30,000 square feet). It has about 12,000 items, 40 employees, and $4 million a year sales; and costs about $1.7 million including land, building, equipment and initial merchandise.

The progression from small to large stores has been constant over the years, keeping pace with change in the life and needs of consumers. Instead of walking daily to the corner store to hand-carry home a day's food needs, today's shopper may drive a mile or more to the supermarket and load the car with a week's supply.

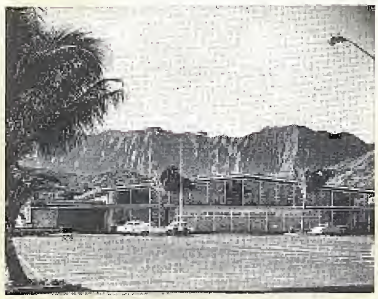
Safeway has sought to be in the forefront of meeting these changing needs. Our 1940 stores were among the first to have parking lots; our 1950 stores advanced the use of interior decorator colors for more pleasant shopping; our 1960 stores introduced the beauty of curved roof design along with signifi-

A 1930 store: 1,000 sq. ft., strictly "walk to."

By 1940, parking lots; for community events as well as cars.

Our 1950 stores were huge for their time, featured sign tower, few windows, bright and colorful decor within.

Safeway's Marina store, close by the Golden Gate in San Francisco, shows beauty of 1960's curved roof design.



Safeway left Hawaii in 1934, returned in 1963. This store is in Kailua.

Opening crowds at a new Safeway in Melbourne, Australia, in the mid-1960's.

Safeway entered Britain in 1962. Shrewsbury (above) is one of 82 stores we have there now.

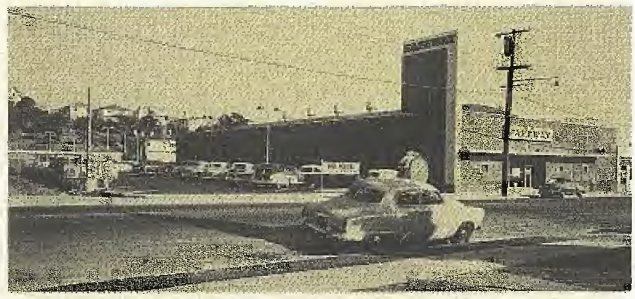
cant construction and layout economies; and our 1970 stores are second to none in attractiveness and efficiency.

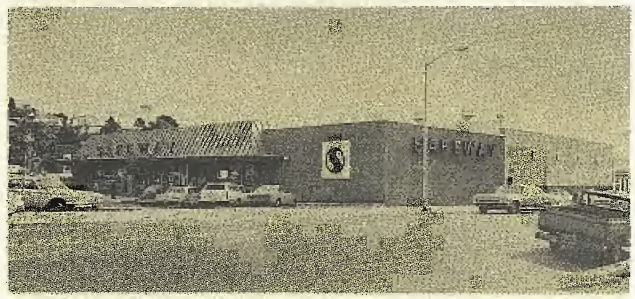
Another avenue for Safeway growth has been expansion into new geographical areas: to England in 1962, to Hawaii in 1963 (our former 9 stores there were sold in 1934); to Alaska, West Germany, and Australia in 1963; and to Houston and Toronto in 1969.

Remodeling has played a key role in keeping our stores up to date. In 1975, a year when new-store building was somewhat reduced (111 in 1975 vs. 164 in 1974), we completed 425 remodels, 60 of them classified as major. In all, our 1975 remodeling added 70,000 lineal feet of display, equivalent to the display facilities of 28 new stores.

Back in 1931, just five years after incorporation, Mr. Skaggs said in the annual report that although 1931 was difficult and retail food prices had **declined** about 17% during the year, "the patrons of the company have been served at a minimum of expense...the physical properties of the company have been maintained in excellent condition...and a great deal of thought was given to the type of store we expect in the immediate future..."

Except for that part about prices, those same words apply to the year just past — our fiftieth.





We remodeled 425 stores in 1975. Above are "before and after" shots of one virtually rebuilt in original shell. Note new front faces parking lot, was side of old store.

One of Safeway's finest in Mill Valley, California. Fifty years ago its 36,870 square feet would have equaled the floor space of a large district — 35 to 40 stores.

DISTRIBUTION CENTERS

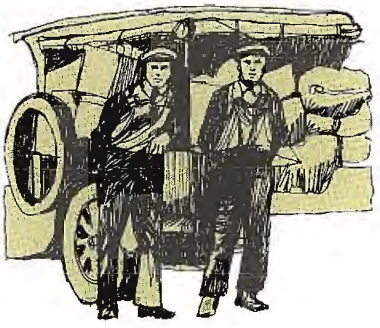
Our historic objective of "Distribution Without Waste" is nowhere more visible than in the Distribution Center of a Safeway Retail Division.

This modern warehouse and trucking complex usually consists of specialized warehouses for groceries, meats, fresh fruits and vegetables, dairy products, frozen foods, and non-foods; a salvage operation; and the Division trucking fleet and truck repair shop. There may also be one or more supply plants such as produce prepacking, bakery, or milk and ice cream.

A Distribution Center receives many thousands of items coming in from myriad sources to this one central point, to be assembled into truckloads and sent out to the stores. Our largest Division center is on a 75-acre site, with buildings totaling 25 acres under roof, a fleet of some 200 trucks, and about 1,500 employees. It delivers more than **35 million pounds** of product to the stores **every week.**

Safeway pioneered the "center" concept, with its obvious efficiencies in administration, maintenance, and equipment use. We opened the first complete one in the Washington, D.C. Division in 1951, and by 1965 had them in 19 of our U.S. and Canadian Divisions. In the early 1970's we completed new centers in the United Kingdom and Australia, and

Unlike the big rig below, these trucks in Montana had pneumatic tires. Whole scene here would go easily into one truck today.



Above solid-tired behemoth was pride of Safeway in Southern California, circa 1927. For modern counterpart, see opposite page.

today all but three of our 28 Divisions have one.

When our founder, M. B. Skaggs, moved into warehousing, he moved in fast. By 1925 he had his own wholesaling operation in the Pacific Northwest. It became our then Western States Grocery Company soon after Safeway's incorporation in 1926, and by 1929 he had opened branch warehouses in Oakland, Seattle, Bakersfield, Salt Lake City, San Francisco, San Diego, El Paso, Sacramento, Tulsa, Honolulu, Dallas, Fort Worth, Waco, Little Rock, Springfield, Eureka, Flagstaff, Globe, Phoenix, and Tucson. These operations originally served all comers, but as Safeway grew, their sales to "outsiders" eventually ended

The rapid pace of change over the years continues. Today our computers help to control inventories. We are testing an in-warehouse computer to control placement and movement of pallet loads, along with an ultra-high stacker crane for best use of space. We are studying the automated warehouse wherein machines assist in the work of storing, selecting and assembling merchandise for shipment to the stores.

These big centers are a major factor in moving food from producer to consumer most efficiently and at least possible cost.

Early-day warehouse (1929) at 4th & Jackson Sts. in Oakland. Converted years ago to offices, building is still in use today

This modern Safeway Division Distribution Center sends 35 million pounds a week out to the stores.

Your groceries today move to the store in a tractor-trailer like the one above. It hauls 20 tons, palletized, in a single load.

SUPPLY OPERATIONS

Fifty years ago Safeway's first annual report described the newly incorporated company as consisting of "grocery stores, meat markets, **and bakeries.**"

Those bakeries (six in all) represented the first important ventures by Safeway predecessors into "making our own." The idea originally was as much to have an assured supply as it was to reduce costs and lower prices for the customer.

By the mid 1930's Safeway had 21 bakeries, 6 creameries, 6 coffee roasting plants, 3 meat distributing plants, a milk condensery, a candy and syrup factory, and a mayonnaise plant. We were also well into field purchasing of fresh fruits and vegetables with our old Triway Produce Company.

Today our supply operations embrace 111 Safeway manufacturing plants and 35 buying offices, and employ 7,500 people. We have some 5,000 items under our own labels (about half of which may be stocked in any one store), accounting for more than a fourth of our total sales. Safeway Brands include both those we make ourselves (such things as milk, bread, ice cream, coffee, jam & jelly, detergents, soft drinks, lunch meats, and vegetable oils); and those which others make for us (including canned fruits and vegetables, frozen foods, paper products, panty hose, health and beauty aids, and beer, wines and spirits).

Among the pictures on these pages is one of the Skaggs tea buying operation in Shizuoka, Japan, taken in 1925. In 1934 Mr Skaggs was still working on doing a better job with tea when he instituted a plan "whereby our Dwight Edwards Co. will provide a good quality of tea packed in cellophane for distribution from Denver west; that tea to be sold at a reasonable profit and below the price of the regular advertised brands. (This will) get away for all time from the hit-or-miss quality resulting from the handling of bulk tea."

Our supply operations from the beginning have helped provide an assured supply of quality products that save money for consumers and add to Safeway's sales and income.

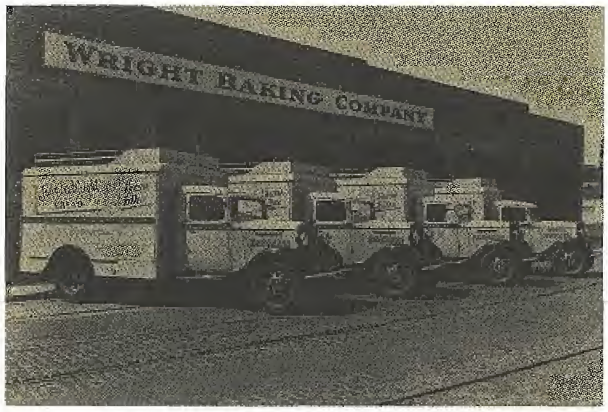
OUR 50TH YEAR

Here you see origin of a famous Safeway Brand name, in this pre-Safeway photo of milk plant at Hanford, CA.

Another famous Safeway Brand name was born in Portland, Oregon, long before Safeway existed, as above photo testifies

Private labels of an earlier time included Safeway Shoe Peg Corn, Town House Sweetened Grapefruit Juice, and Highway Apricots

Tea from this plant in Shizuoka, Japan, in 1925 was termed "first picking, of unusually high quality."



A Safeway bakery in Portland, OR, not so long ago. Note that the bread was dated, as our Mrs. Wright's bread is today.

In the 70's things move faster. California strawberries arrive in Kansas City at dawn, for immediate delivery to stores

50 YEARS OF GROWTH

(Dollar amounts in millions except weekly average sales per store.)

W. R. H. Weldon
President, 1926-1928[1]

M. B. Skaggs
President, 1928-1934[1]

Lingan A. Warren
President, 1934-1955

Milton L. Selby
President, 1955-1957

Robert A. Magowan
President, 1957-1966

Quentin Reynolds
President, 1966-1971

W. S. Mitchell
President since 1971[2]

Year	Sales	No. of Stores (Year-End)	Weekly Avg. Sales Per Store	Pre-Tax Income
1926 (6 Mos.)	$ 30.1	766	$ 1,500	$ 0.9
1927	69.6	915	1,400	2.3
1928	103.3	2,020	1,300	4.0
1929	213.5	2,660	1,400	6.7
1930	219.0	2,691	1,200	4.3
1931	246.8	3,527	1,200	6.1
1932	229.2	3,370	1,100	4.9
1933	220.2	3,277	1,000	4.9
1934	243.0	3,201	1,100	4.6
1935	294.7	3,405	1,300	4.1
1936 (53 Wks.)	346.2	3,347	1,500	5.1
1937	381.9	3,274	1,600	3.9
1938	368.3	3,112	1,700	5.1
1939	385.9	2,859	2,100	7.9
1940	399.3	2,528	2,600	6.5
1941	475.1	2,948	3,200	8.6
1942 (53 Wks.)	611.1	2,530	4,100	9.7
1943	588.8	2,472	4,400	8.4
1944	656.6	2,463	4,900	10.3
1945	664.8	2,442	4,900	8.3
1946	847.8	2,413	6,400	19.3
1947	1,117.1	2,393	8,600	13.6
1948 (53 Wks.)	1,276.8	2,240	10,100	16.9
1949	1,197.8	2,166	10,200	24.6
1950	1,210.0	2,072	11,000	28.8
1951	1,454.6	2,125	13,000	13.3
1952	1,639.1	2,092	14,600	17.1
1953 (53 Wks.)	1,751.8	2,037	15,600	29.6
1954	1,813.5	1,998	16,900	28.8
1955	1,932.2	1,998	18,300	27.3
1956	1,989.3	1,981	18,800	53.4
1957	2,117.3	2,033	19,800	65.0
1958	2,225.4	2,117	20,200	69.9
1959 (53 Wks.)	2,383.0	2,164	20,500	76.5
1960	2,469.0	2,207	21,100	75.2
1961	2,538.0	2,054	21,800	78.6
1962	2,509.6	2,069	22,800	83.3
1963	2,649.7	2,077	24,000	94.7
1964 (53 Wks.)	2,817.6	2,127	24,900	97.9
1965	2,939.0	2,165	25,900	95.2
1966	3,345.2	2,220	29,100	117.8
1967	3,360.9	2,237	28,400	100.1
1968	3,685.7	2,241	31,000	115.5
1969	4,099.6	2,260	34,300	108.6
1970 (53 Wks.)	4,860.2	2,297	39,500	140.5
1971	5,358.8	2,283	44,400	155.1
1972	6,057.6	2,331	50,300	168.4
1973	6,773.7	2,364	54,400	157.3
1974[(2)]	8,185.2	2,426	64,600	140.6
1975 (53 Wks.)	9,716.9	2,451	74,800	275.1

[1] Safeway (Maryland) began as a holding company, and W. R. H. Weldon was its first President, but M. B. Skaggs was President and Chief Executive of the operating subsidiaries from the start.

[2] Mr. Mitchell was honored as "most outstanding Chief Executive Officer of 1975 in the grocery chains industry" by 48 leading security analysts in a Financial World poll.

SAFEWAY STORES, INCORPORATED

Income Taxes	Net Income		Dividends[1]	Earnings Retained In The Business	No. of Employees (Year-End)	Year
	Dollars	% of Sales				
$ 0.1	$ 0.8	2.6%	$ 0.1	$ 0.7		1926
0.4	1.9	2.7	0.8	1.1		1927
0.5	3.5	3.3	1.4	2.1		1928
0.6	6.1	2.9	2.7	3.4		1929
0.5	3.8	1.7	3.9	(0.1)		1930
0.7	5.4	2.2	4.4	1.0		1931
0.5	4.4	1.9	4.6	(0.2)		1932
0.6	4.3	1.9	3.4	0.9		1933
0.7	3.9	1.6	3.4	0.5		1934
0.7	3.4	1.1	2.9	0.5		1935
1.0	4.1	1.1	3.7	0.4		1936
0.8	3.1	0.8	3.0	0.1		1937
0.9	4.2	1.1	2.6	1.6		1938
1.7	6.2	1.6	4.5	1.7		1939
1.7	4.8	1.2	3.8	1.0		1940
3.6	5.0	1.0	3.9	1.1		1941
5.2	4.5	0.7	3.6	0.9		1942
3.4	5.0	0.8	3.6	1.4		1943
5.1	5.2	0.7	3.6	1.6	35,866	1944
3.3	5.0	0.7	3.5	1.5	37,500	1945
7.7	11.6	1.3	3.5	8.1	38,057	1946
5.5	8.1	0.7	3.6	4.5	40,339	1947
6.8	10.1	0.7	3.6	6.5	34,971	1948
9.8	14.8	1.2	4.1	10.7	34,972	1949
14.1	14.7	1.2	7.4	7.3	35,635	1950
5.7	7.6	0.5	8.0	(0.4)	38,000	1951
9.8	7.3	0.4	8.4	(1.1)	41,060	1952
15.1	14.5	0.8	9.0	5.5	46,836	1953
14.8	14.0	0.7	10.3	3.7	49,887	1954
13.7	13.6	0.7	10.6	3.0	54,257	1955
28.0	25.4	1.2	10.7	14.7	54,949	1956
34.1	30.9	1.4	12.2	18.7	57,356	1957
36.5	33.4	1.5	14.7	18.7	59,555	1958
40.8	35.7	1.4	16.5	19.2	63,149	1959
40.4	34.8	1.4	18.8	16.0	63,507	1960
42.0	36.6	1.4	20.1	16.5	60,896	1961
44.0	39.3	1.5	21.0	18.3	63,120	1962
49.9	44.8	1.6	21.5	23.3	66,605	1963
47.9	50.0	1.7	24.1	25.9	68,804	1964
47.0	48.2	1.6	25.6	22.6	69,248	1965
58.1	59.7	1.8	26.0	33.7	74,798	1966
49.2	50.9	1.5	28.0	22.9	78,000	1967
60.5	55.0	1.5	28.0	27.0	83,655	1968
57.3	51.3	1.2	28.0	23.3	91,532	1969
71.6	68.9	1.4	29.3	39.6	96,760	1970
74.9	80.2	1.5	33.2	47.0	97,463	1971
77.3	91.1	1.5	34.6	56.5	105,613	1972
71.0	86.3	1.3	38.6	47.7	117,721	1973
61.4	79.2	0.9	43.9	35.3	121,355	1974
126.5	148.6	1.5	49.2	99.4	126,964	1975

(Comparable figures not available.)

[1] Dividends include preferred, paid through 1965 but not since.
[2] Reflects change to LIFO method of valuing certain inventories in the U.S.

PEOPLE

When M. B. Skaggs moved to Portland, Oregon, in 1922 and needed trained people to run new stores, he met the problem with characteristic directness.

"As we opened new stores," he explained, "we could draw our managers from the trained men in Idaho, and our expansion was rapid."

The Skaggs organization (and later Safeway) was strongly "people oriented." It was a climate in which people could grow.

Significantly, of the 37 top executives in Safeway's retail operations today, 31 began in the stores as a clerk or meat cutter.

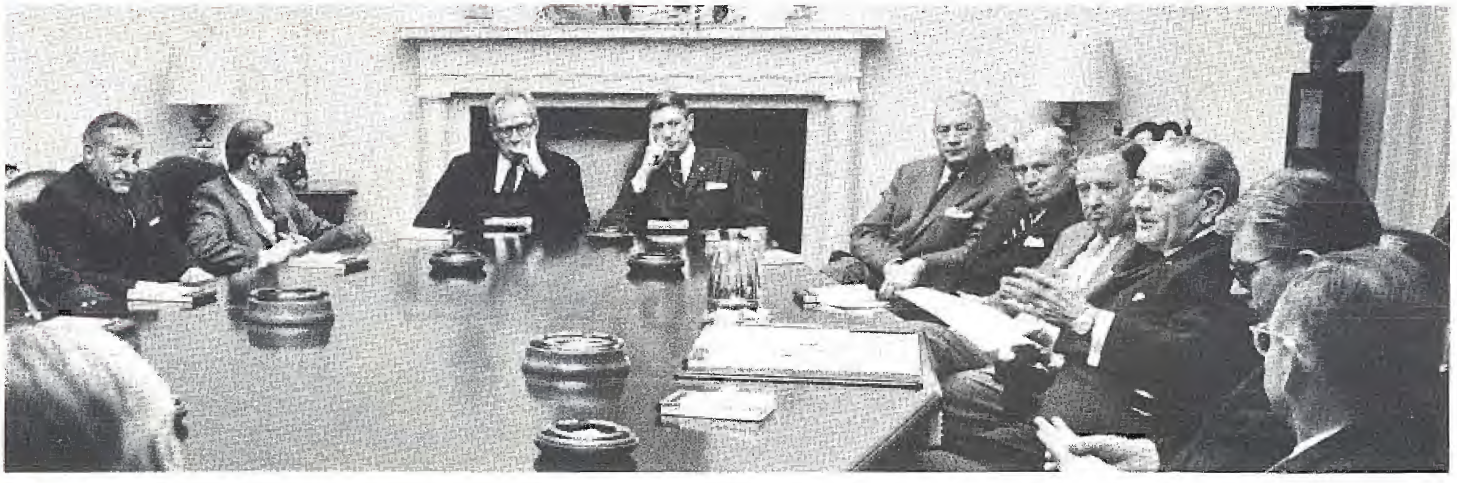
A classic example is the remarkable 50-year career of Quentin Reynolds, present Board Chairman and former President and Chief Executive Officer. In 1923 he went to work after school and on Saturdays in O. P. Skaggs' (M.B.'s brother) Cash and Carry Stores in Oakland, California. In 1926 he left college to work full time, and a year later became manager of Skaggs-Safeway store #76 in Berkeley.

From there Mr. Reynolds moved up to Supervisor, District Manager, and Retail Operations Manager of the San Francisco Zone in 1947; then to Division Manager, Vice President, Regional Manager, Director, President, and Chairman of the Board. (W. S. Mitchell succeeded him as President in 1971.)

While Quentin Reynolds himself benefited from the climate of opportunity in Safeway, at the same time he inspired others with his own concern for people. It was in 1968 during his second year as President that both minority problems **and** consumerism reached peaks of activity. Fire and riot erupted in the streets of the Nation's capital; and housewives' boycotts broke out in several areas

Q. Reynolds (left) as Store Mgr. in 1927. He began part time with Skaggs 4 years before

Mr. Reynolds (right) thirty years later had become the Division Mgr., San Francisco



As Safeway President in 1968, Quentin Reynolds served on the executive board of the National Alliance of Businessmen.

SAFEWAY STORES, INCORPORATED

(A MARYLAND CORPORATION)

ANNUAL REPORT OF PRESIDENT TO STOCKHOLDERS

This is a facsimile of the first
Annual Report of the Company for the year

1926

ANNUAL REPORT OF PRES

FOR the Safeway Stores, Incorporated, of Maryland, the year 1926 was one of organization, preparation and basic construction. It was incorporated early in the year as a holding company and immediately thereafter acquired, through stock ownership, the business of Safeway Stores, Incorporated, a California corporation, which was then operating a chain of 322 grocery stores and two bakeries in the Southern Counties of California. This California corporation purchased, early in March, 1926, the 84 grocery stores and two bakeries of the H. G. Chaffee Company, which were operating in the Southern California field.

In ten of the northwestern states, the Skaggs' chains of grocery stores, meat markets and bakeries, 428 in number, were operating successfully in entirely non-competing territory. As of July 1st of that year, a merger and consolidation was effected between the two systems. In carrying out the plan of the merger, all of the assets of the various Skaggs companies were transferred to new operating companies, each conducting its business in a distinct territory. The final result of these various moves being that the following corporations, all subsidiary to Safeway Stores, Incorporated, of Maryland, are operating the retail stores and bakeries of the system: Skaggs-Safeway Stores, Incorporated, a California corporation, in Northern and Central California; Safeway Stores, Incorporated, a California corporation, in Southern California, and Skaggs-Safeway Stores, Incorporated, a Nevada corporation, in Oregon, Washington, Idaho, Montana, Nevada, Utah, Wyoming, Colorado and Nebraska. Upon the consummation of the merger, M. B. Skaggs became the president of each of these subsidiaries, and the chief executive in active charge of all their operations. Mr. Skaggs has a ten-year record as chief executive of a grocery chain, during which time he made of it an outstanding success. One of the chief elements of the substantial financial position of his former corporations and their prestige with the public is undoubtedly due to the fact that he deems it fundamental that a mer-

SAFEWAY STORES

(A MARYLAND C

and SUBSI

Consolidated Balance Shee

ASSETS

CURRENT ASSETS:		
Cash in Bank and on Hand		$ 642,079.03
Accounts Receivable—Trade		270,385.64
Accounts Receivable—Sundry		60,351.22
Merchandise Inventories		5,751,081.06
TOTAL CURRENT ASSETS		$6,723,896.95
PREPAID EXPENSES		118,732.36
INVESTMENTS AND ADVANCES		51,585.74
FIXED ASSETS:		
Real Estate and Buildings	$ 657,761.29	
Store and Warehouse Fixtures and Equipment	2,514,785.16	
	$3,172,546.45	
Less: Reserve for Depreciation	973,227.60	2,199,318.85
TOTAL		$9,093,533.90

DENT TO STOCKHOLDERS

cantile business, to be fully successful, must offer to its employees attractive opportunities for personal growth and financial progress, as well as to give to the public superior service. Other leading executives of the companies are Edward Dale, L. L. Skaggs, L. J. Skaggs and L. S. Skaggs, all of whom are themselves experienced and successful chain store operators.

In the last half of 1926, covering the period during which the completed merger operated, the total net sales were $30,089,817.25. After deducting all of the merger and organization expenses, and after setting up a reserve for income tax, estimated at $124,658.14, the net earnings for the six months were $798,735.52. These figures compare favorably with those of the same businesses conducted by the predecessor companies during the first six months of 1926; the sales for that period, after giving effect to minor adjustments, were $22,621,535, and the net profits after taxes were $698,144.

The earnings for the last six months were 6.33 times the dividends accruing during the same period on the outstanding $3,600,000, of preferred stock. After the payment of the preferred stock dividends, the earnings per share on the 55,069 shares of common stock outstanding on December 31, 1926, were at the annual rate of $24.43 per share.

The outlook for the year of 1927 is bright. The unified control and the increased buying power resulting from the merger will give the opportunity for greater usefulness. The employees throughout the organization are enthusiastic in their response to the leadership of Mr. M. B. Skaggs. Plans have been formulated and are being carried out, for the opening of new territory and the covering of the old territory more completely with retail stores.

Respectfully submitted,

W. R. H. WELDON,
President.

INCORPORATED

'ORPORATION)

DIARIES

as at December 31, 1926

LIABILITIES

CURRENT LIABILITIES:		
Notes Payable—Bank		$ 513,000.00
Accounts Payable—Trade		1,049,310.93
Advances from Predecessor Companies		1,131,022.43
Accrued Liabilities, including Federal Taxes		400,665.76
Dividends Payable		173,000.00
TOTAL CURRENT LIABILITIES		$3,266,999.12
DEPOSITS ON LEASES		30,379.81
MORTGAGE ON REAL ESTATE AND BUILDINGS		250,000.00
SURPLUS RESERVED		200,000.00
CAPITAL AND SURPLUS:		
Preferred 7% Cumulative Stock—Par Value $100.00 per share		
Authorized	$5,000,000.00	
Outstanding		3,600,000.00
COMMON STOCK, WITHOUT PAR VALUE, AND SURPLUS:		
Authorized, 75,000 Shares		
Outstanding, 55,069 Shares		1,746,154.97
TOTAL		$9,093,533.90

CONTINGENT LIABILITIES—NONE.

This back page was blank in the original 1926 Annual Report. Map added to show geographical extent of the Company's store operations at time of incorporation.

Safeway's responses were positive. Our top executives played a prominent role in the nation-wide crash program of the National Alliance of Businessmen to provide jobs for the minority underprivileged. Safeway's many projects included an all-out effort to rescue a failing co-op grocery store in the black community of Hunter's Point in San Francisco.

The Company has taken a leading part in consumer programs such as open dating, unit pricing, and advising consumers about nutrition and good values. Last September we received from Family Circle Magazine, their Gold Leaf Award for excellence in nutrition education, for our 32-page "Guidebook on Foods."

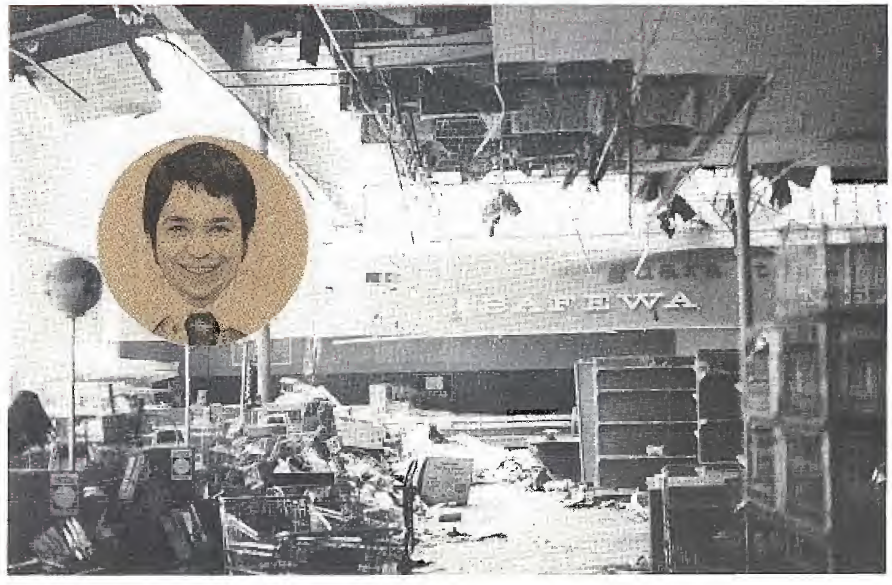
Back in 1934, an M. B. Skaggs bulletin announced the "third annual" Safeway cooking school, free to the public. M.B. was an avid advocate of community and consumer relations. He once said:

"Only those men and organizations that keep the faith and keep alive a deep sense of obligation to their associates and the public can succeed to any marked degree..."

Safeway is awarded 1975 Gold Leaf Award by Family Circle Magazine for work in nutrition.

Woodson High School Chorus of Washington, D C visits Safeway store in Chelsea, England, after tour of Europe Safeway donation helped make trip possible

As you can see from the 1935 newspaper ad above, open-dated packages are no new thing at Safeway



When a tornado struck this Tulsa store last December about 25 people were in the sales room Manager Clifford Gramm (inset) saw it coming and in less than 60 seconds herded most of them into the backroom cooler box. Miraculously, no one was hurt The city suffered $5 million damage, Safeway donated food for 200 homeless families

FINANCIAL REVIEW and MANAGEMENT

The following Financial Review and Management Analysis should be read in conjunction with the information provided in the tables below and the financial statements and footnotes thereto presented on pages 17 through 22. For a further discussion of 1975 operations, see the letter to Shareholders, Customers, and Employees, page one.

Description of Business. At the close of fiscal 1975, Safeway operated 2,451 supermarkets (a breakdown of the number of stores and sales by country is shown below) and various related manufacturing, processing and distribution facilities. Sales of supermarket merchandise provide substantially in excess of 90% of the total sales and earnings of the Company and its subsidiaries. The Company and its subsidiaries did not engage in any other line of business accounting for 10% or more of total sales and revenues, or of income before income taxes.

1971. Despite problems associated with the troubled economy, Safeway had a very good year in 1971. Annual sales were at a record level of over $5 billion, a 10% increase over 1970 (a 53-week year). More significantly, net income kept pace with sales gains, with a 16.4% increase to $80.2 million, a new record. In August, 1971 Safeway's U.S. operations were subjected to price-wage controls.

1972. In a year of severe challenge for the retail food industry, Safeway achieved new records in both sales and net income. Sales increased 13% to over $6 billion, while net income increased 13.6% to a new high of $91.1 million. The Company operated under Phase 2 of the United States price-wage controls during all of 1972.

1973. Although sales reached a new high of $6.8 billion, net income dipped to $86.3 million because of two significant but temporary occurrences—severe shortages in the available supplies of beef in the third and fourth quarters, and year-end strikes affecting about 500 California stores. The Company operated under changing sets of United States price freezes and price-wage controls during all of 1973.

1974. With U.S. controls first relaxed and then terminated in April, 1974 high inflation rates buffeted both consumers and grocers, forcing new priorities and changes in buying habits. Safeway's

FIVE YEAR SUMMARY OF OPERATIONS

(Dollars in millions except those stated on a share basis.)

	1971	1972	1973	1974 (1)	(53 Weeks) 1975
Sales	$5,358.8	$6,057.6	$6,773.7	$8,185.2	$9,716.9
Percent of Annual Increase	10.3%	13.0%	11.8%	20.8%	18.7%
Cost of Sales	4,272.3	4,846.2	5,457.1	6,658.3	7,761.8
Gross Profit	1,086.5	1,211.4	1,316.6	1,526.9	1,955.1
Percent of Sales	20.3%	20.0%	19.4%	18.7%	20.1%
Operating and Administrative Expenses	928.1	1,035.1	1,150.0	1,370.7	1,667.2
Percent of Sales	17.3%	17.1%	17.0%	16.7%	17.2%
Interest Expense	5.5	9.6	11.9	18.0	15.6
Other Charges (Credits) Net	(2.2)	(1.7)	(2.6)	(2.4)	(2.8)
Income Taxes	74.9	77.3	71.0	61.4	126.5
Percent of Net Income Before Taxes	48.3%	45.9%	45.2%	43.7%	46.0%
Net Income for the Year	80.2	91.1	86.3	79.2	148.6
Percent of Sales	1.50%	1.50%	1.27%	.97%	1.53%
Percent of Annual Increase (Decrease)	16.4%	13.6%	(5.3%)	(8.2%)	87.6%
Net Income Per Share	$3.14	$3.55	$3.35	$3.07	$5.74
Cash Dividend Paid Per Share	$1.30	$1.35	$1.50	$1.70	$1.90
Net Income as a Percent of Average Stockholders' Equity	15.38%	15.81%	13.67%	11.74%	19.98%
Capital Expenditures For The Year	$173.2	$211.0	$203.0	$257.2	$196.1

(1) Reflects a change to the LIFO method of valuing certain inventories.

ANALYSIS

sales advanced by approximately 21% to a new high of $8.2 billion, a volume achieved by only one other retail organization. Net income, however, dropped to $79.2 million principally reflecting the Company's change to the LIFO method of valuing certain inventories in the United States.

1975. Inflation continued into 1975 but the rate decreased steadily during the second half of the year. Safeway's 1975 (53-week year) sales reached a record level of $9.7 billion, an increase of approximately 19% over 1974. The number of customer transactions increased from 1.2 billion to 1.3 billion. Gross profit of $1.96 billion increased by $428 million over 1974, and increased as a percent of sales from 18.7% to 20.1%. Results reflect continuing application of the LIFO method of valuing certain inventories as adopted in 1974. If the FIFO method had been used, inventories would have been $87,718,000 higher as of January 3, 1976, and $85,992,000 higher as of December 28, 1974.

Operating and Administrative Expenses increased in total dollars and, for the first time in eight years, as a percent of sales from 16.7% to 17.2% in 1975. Other income and deductions decreased by $2.8 million, principally lower interest expense as a result of substantially lower interest rates and lower levels of short-term borrowing. The approximate average aggregate short-term borrowing during 1975 was $36,471,000 vs. $54,669,000 in 1974 at a weighted average interest rate of 7.02% vs. 10.01% in 1974.

Net income after taxes amounted to $148.6 million or 1.53% of sales compared to $79.2 million or 0.97% of sales in 1974. Net income per share was $5.74 compared to $3.07 in 1974. During 1975, return on average stockholders' equity was 19.98% compared to 11.74% in 1974.

During the last quarter of 1975, the operations of Safeway's Canadian subsidiaries were subjected to wage-price restraints administered by the Canadian Anti-Inflation Board.

Property. Capital expenditures for property, plant and equipment, net of retirements and miscellaneous equipment sales, amounted to $196 million during 1975 and $257 million during 1974. As indicated in the Statement of Changes in Consolidated Financial Position, these expenditures have been financed through internally generated cash flows, sale and leasebacks and debt supported by mortgages on properties held by our wholly-owned real estate subsidiary. The major

SALES BY COUNTRY

(In millions U.S. $)	1975	1974	Percent Increase	Percent of Total 1975	Percent of Total 1974
United States	$7,865.0	$6,637.8	18.5%	81.0%	81.1%
Canada	1,279.8	1,092.8	17.1	13.2	13.3
United Kingdom	276.0	218.5	26.3	2.8	2.7
Australia	234.4	186.2	25.9	2.4	2.3
West Germany	61.7	49.9	23.6	.6	.6
Total Sales	$9,716.9	$8,185.2	18.7%	100.0%	100.0%

STORES BY COUNTRY

	End of Fiscal Year 1975		Number of Stores Opened During Past 5 Years					Opened Prior
	Million Sq. Ft.	No. of Stores	1975	1974	1973	1972	1971	to 1971
United States	43.3	2,026	86	135	109	111	91	1,494
Canada	5.9	271	10	9	14	17	12	209
United Kingdom	1.3	82	5	10	14	6	10	37
Australia	1.0	50	7	4	5	5	6	23
West Germany	.3	22	3	6	1	3	2	7
Total	51.8	2,451	111	164	143	142	121	1,770

QUARTERLY INFORMATION (UNAUDITED)

	First 12 Weeks		Second 12 Weeks		Third 12 Weeks		Last 17 (16) Weeks	
	1975	1974	1975	1974	1975	1974	1975	1974
Sales[1]	$2,081,365	$1,730,567	$2,169,358	$1,835,091	$2,286,203	$1,950,713	$3,179,963	$2,668,819
Gross Profit[1][3]	408,407	318,457	446,758	347,759	455,111	370,490	644,840	490,202
Net Income[1]	24,901	14,608	39,564	18,832	31,698	22,295	52,266	23,470
Net Income Per Share	0.96	0.57	1.53	0.73	1.23	0.86	2.02	0.91
Dividends Paid Per Share[2]	0.45	0.40	0.45	0.40	0.50	0.45	0.50	0.45
Market Price Range of Common Stock	44½-34½	43¼-36¼	49¼-42⅝	43⅞-38¼	52-46¾	39¾-31	50-42	37⅞-29⅝

(1) In thousands. (2) Calendar quarter. (3) If the FIFO method had been used, inventories at the end of each period in 1975 would have been higher by $95,592,000, $96,792,000, $102,192,000 and $87,718,000, respectively.

FINANCIAL INFORMATION—FOREIGN OPERATIONS

	Canadian Operations[2]		Overseas Operations		Consolidated	
Balance Sheet Data[1]	**1975**	**1974**	**1975**	**1974**	**1975**	**1974**
Current Assets	$ 183,863	$ 143,002	$ 30,398	$ 29,341	$ 214,261	$ 172,343
Investment In Overseas Subs.	57,676	56,043	—	—	—	—
Other Assets	731	814	3,559	3,749	4,290	4,563
Property (net)	108,067	111,110	102,255	80,042	210,322	191,152
Total	$ 350,337	$ 310,969	$136,212	$113,132	$ 428,873	$ 368,058
Current Liabilities	$ 94,659	$ 89,466	$ 55,800	$ 50,253	$ 150,459	$ 139,719
Long-Term Liabilities	4,813	4,263	10,566	6,755	15,379	11,018
Loan by Parent	—	—	29,338[2]	22,952[2]	9,753	—
Deferred Gain on Sale of Property	—	—	2,316	—	2,316	—
Preferred Stock	3,373	3,791	—	—	3,373	3,791
Equity of Parent	247,492	213,449	38,091	33,091	247,492	213,449
Minority Interest	—	—	101	81	101	81
Total	$ 350,337	$ 310,969	$136,212	$113,132	$ 428,873	$ 368,058
Income Statement[1]						
Sales	$1,279,749	$1,092,758	$572,165	$454,640	$1,851,914	$1,547,398
Cost of Sales	1,033,427	882,369	465,641	373,359	1,499,068	1,255,728
Gross Profit	246,322	210,389	106,524	81,281	352,846	291,670
Operating and Admin. Expenses	192,489	161,848	92,052	71,125	284,541	232,973
Operating Profit	53,833	48,541	14,472	10,156	68,305	58,697
Other Income and (Deductions)	949	889	(4,344)	(1,343)	(3,395)	(454)
Income Before Taxes	54,782	49,430	10,128	8,813	64,910	58,243
Provision for Income Taxes	25,542	23,455	5,128	3,563	30,670	27,018
Net Income	$ 29,240	$ 25,975	$ 5,000	$ 5,250	$ 34,240	$ 31,225

(1) In thousands of U.S. dollars. (2) Includes Canada Safeway International Finance Corp.

part of these expenditures was involved in the opening of 111 new stores and the completion of 3 new warehouses and plants. Expenditures were also made for 60 major store remodels as well as for expanding 18 plants and warehouses. As a measure of inflation and growth in the store size, a typical 1975 store cost $1,230,000 including fixtures and was 28,000 square feet in size compared to about $626,000 and 23,000 square feet ten years ago.

At the end of 1975, Safeway operated 2,451 stores averaging 21,200 square feet in size, with a total area of 51.8 million square feet. The number of new stores opened during the past five years and the number and area of stores in operation in each country at the end of 1975 are shown on the previous page. Provision for depreciation was $87,676,000 in 1975 and $79,742,000 in 1974.

Foreign Operations. Sales of operations in Canada and overseas continued to expand at a greater rate than the Company overall. Canadian sales increased 17.1% over 1974 to a record high of $1.28 billion. Net income also increased to a record high of $29.2 million, an increase of 12.6%. For the three overseas subsidiaries combined, sales increased to $572 million, an increase of 25.8%, and net income decreased to $5.0 million, a decrease of 4.8%. The Canadian and overseas subsidiaries combined account for 19.0% of consolidated sales and 23.0% of consolidated net income. The parent Company's equity in annual earnings of these subsidiaries was $34,092,000 in 1975 and $31,058,000 in 1974. Condensed financial statements for foreign operations are shown above.

Safeway Stores, Incorporated and Subsidiaries

Consolidated Statement of Income and Retained Earnings

For the 53 Weeks Ended January 3, 1976 and the 52 Weeks Ended December 28, 1974

	1975	1974
Sales	$ 9,716,889,000	$ 8,185,190,000
Cost of Sales	7,761,773,000	6,658,282,000
Gross Profit	1,955,116,000	1,526,908,000
Operating and Administrative Expenses	1,667,214,000	1,370,715,000
Operating Profit	287,902,000	156,193,000
Other Income and Deductions		
Income		
Interest received	1,776,000	1,410,000
Earnings of unconsolidated foreign subsidiary	2,000	69,000
Sundry income	1,714,000	1,959,000
	3,492,000	3,438,000
Deductions		
Interest on long-term debt	5,554,000	7,320,000
Other interest expense	10,004,000	10,685,000
Loss (gain) on disposition of fixed assets	60,000	(88,000)
Dividends on preferred stock of Canadian subsidiary	148,000	167,000
Amortization of excess cost of investments in subsidiaries	217,000	220,000
Minority interest in earnings of overseas subsidiary	20,000	13,000
Other charges	262,000	701,000
	16,265,000	19,018,000
Income before provision for income taxes	275,129,000	140,613,000
Provision for Federal, Canadian and other Income Taxes	126,500,000	61,408,000
Net Income (per share: 1975, $5.74; 1974, $3.07)	148,629,000	79,205,000
Retained Earnings at Beginning of Period	594,700,000	559,360,000
	743,329,000	638,565,000
Deduct		
Cash Dividends on common stock (per share: 1975, $1.90; 1974, $1.70)	49,249,000	43,926,000
Additions resulting from stock acquisitions	(63,000)	(61,000)
	49,186,000	43,865,000
Retained Earnings at End of Period	$ 694,143,000	$ 594,700,000

See accompanying "Notes to Financial Statements"

TEN-YEAR DIVIDEND SUMMARY
YEAR-TO-YEAR PERCENT CHANGE

Year	S&P Dividends	Consumer Price Index	Safeway Common Dividend
1966	+5.5	+2.9	+2.5
1967	+1 7	+2.9	+7.3
1968	+5.1	+4.2	—
1969	+2.9	+5.4	—
1970	−0.6	+5.9	+4.5
1971	−2.2	+4.3	+13.0
1972	+2.6	+3.3	+3.8
1973	+7.3	+6.2	+11.1
1974	+6.5	+11.0	+13.3
1975	+2.2	+9.2	+11.8
Average Growth Rate 1965-1975	+3 1	+5.5	+6.7

Stock Exchange Listing and Dividends. Safeway's Common Stock is listed on the New York and Pacific Stock Exchanges The high and low sales prices and the dividends paid for each quarterly period during the Company's last two fiscal years are shown on a preceding page, and the percent of year-to-year change in Safeway's dividends paid as compared to the Consumer Price Index, and the Standard and Poor's Index of Dividends for the 500 companies for the last 10 years are shown opposite. It is significant to note that Safeway dividends increased 90% compared to 10 years ago while the Standard and Poor's Dividend Index increased 35% and the Consumer Price Index increased 71%. Of total net income, 33 1% was paid out in dividends during 1975, compared to 55.5% in 1974.

Outlook. The Company looks forward with confidence to the future. Generally Safeway's relations with union representatives continue to be excellent, and in the U.S. the Company actively participates in the National Joint Labor-Management Committee established by Executive Order in 1974. Capital expenditures for 1976 should approximate $240 million principally in opening an estimated 122 new stores (98 in the United States; 14 in Canada; 3 in the United Kingdom; 6 in Australia; and 1 in West Germany); while 78 stores are expected to be closed.

The Canadian operation will continue under the Canadian Anti-Inflation Board restraints, and while their full impact cannot be ascertained, it is the opinion of Management that these restraints will not have a material effect on future results.

CONSOLIDATED BALANCE SHEET

As of January 3, 1976 and December 28, 1974

ASSETS	January 3, 1976	December 28, 1974
Current Assets		
Cash	$ 120,047,000	$ 55,977,000
Receivables	33,275,000	28,568,000
Merchandise inventories	652,477,000	659,710,000
Prepaid expenses	63,354,000	52,752,000
Properties for development and sale within one year	10,961,000	19,736,000
Total Current Assets	880,114,000	816,743,000
Other Assets		
Notes receivable, licenses and miscellaneous investments	14,627,000	14,244,000
Unamortized debenture and note issue expense	609,000	739,000
Excess of cost of investment in subsidiaries over net assets at date of acquisition, net of amortization	3,048,000	3,265,000
	18,284,000	18,248,000
Property, at Cost		
Buildings	76,829,000	85,211,000
Leasehold improvements	180,476,000	156,257,000
Fixtures and equipment	885,230,000	819,971,000
	1,142,535,000	1,061,439,000
Less accumulated depreciation	514,118,000	466,126,000
	628,417,000	595,313,000
Land	47,859,000	59,862,000
	676,276,000	655,175,000
TOTAL	$1,574,674,000	$1,490,166,000

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Notes payable to banks, short-term	$ 29,821,000	$ 85,627,000
Current maturities of long-term notes	5,198,000	25,282,000
Payables and accruals	524,966,000	529,744,000
Federal, Canadian and other income taxes	62,525,000	5,405,000
Total Current Liabilities	622,510,000	646,058,000
Long-Term Liabilities and Reserves		
Notes and debentures payable	106,173,000	104,780,000
Deferred income taxes	34,601,000	35,852,000
Minority interest in capital stock and retained earnings of subsidiaries:		
Preferred stock of Canadian subsidiary	3,373,000	3,792,000
Overseas subsidiary	101,000	81,000
Reserve for insurance claims	11,017,000	6,526,000
Deferred gain on sale of property	2,316,000	—
	157,581,000	151,031,000
Stockholders' Equity		
Common stock	43,220,000	43,092,000
Additional paid-in capital	57,220,000	55,285,000
Retained earnings	694,143,000	594,700,000
	794,583,000	693,077,000
TOTAL	$1,574,674,000	$1,490,166,000

See accompanying "Notes to Financial Statements"

Safeway Stores, Incorporated and Subsidiaries

Consolidated Statement of Changes in Financial Position

For the 53 Weeks Ended January 3, 1976 and the 52 Weeks Ended December 28, 1974

	1975	1974
Funds Provided		
Net income	$ 148,629,000	$ 79,205,000
Add charges (credits) to income not requiring funds:		
Depreciation and amortization	88,077,000	80,150,000
Increase (decrease) in reserves for insurance claims	4,491,000	(1,391,000)
Loss (gain) on disposition of property	60,000	(88,000)
(Decrease) increase in deferred income taxes	(1,251,000)	6,960,000
Funds provided from operations	240,006,000	164,836,000
Proceeds from sale of properties	96,006,000	117,237,000
Increase in long-term debt	6,723,000	1,765,000
Sale of common stock to employees	2,063,000	1,493,000
Increase in deferred gain on sale of property	2,316,000	—
	$ 347,114,000	$ 285,331,000
Funds Used:		
Additions to property, net of retirements and miscellaneous equipment sales	$ 196,068,000	$ 257,186,000
Dividends to common stockholders	49,249,000	43,926,000
Decrease in long-term debt	5,330,000	26,265,000
Decrease in properties for sale within one year	8,775,000	9,865,000
Increase in other assets	437,000	850,000
Decrease in minority interest, net	336,000	286,000
	260,195,000	338,378,000
Increase (decrease) in working capital	$ 86,919,000	$(53,047,000)
Changes in Working Capital:		
Increase (decrease) in current assets:		
Cash	$ 64,070,000	$ 1,582,000
Receivables	4,707,000	1,275,000
Merchandise inventories	(7,233,000)	68,167,000
Prepaid expenses	10,602,000	17,185,000
Properties for sale within one year	(8,775,000)	(9,865,000)
	63,371,000	78,344,000
Increase (decrease) in current liabilities:		
Notes payable to banks	(55,806,000)	29,977,000
Current maturities of long-term notes	(20,084,000)	20,322,000
Payables and accruals	(4,778,000)	103,934,000
Federal, Canadian and other income taxes	57,120,000	(22,842,000)
	(23,548,000)	131,391,000
Increase (decrease) in working capital	$ 86,919,000	$(53,047,000)

See accompanying "Notes to Financial Statements"

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. The Company believes that the accompanying financial statements may be read with greater understanding by reference to the following concise descriptions of the accounting policies and procedures followed. These policies and procedures conform to generally accepted accounting principles and have been applied on a consistent basis.

Fiscal Year: The fiscal year for the Company and its Canadian subsidiaries ends on the Saturday nearest to December 31. Normally, each fiscal year consists of 52 weeks but periodically the fiscal year consists of 53 weeks in order to maintain the year-end on the Saturday nearest to December 31. Fiscal years of overseas subsidiaries follow a similar pattern but generally end on the Saturday nearest September 30. In 1975, the fiscal year consisted of 53 weeks compared to a 52-week year in 1974.

Basis of Consolidation: Consolidated financial statements include results of operations, account balances, and changes in financial position of all subsidiaries except one minor overseas subsidiary which is included in miscellaneous investments at the amount of equity in net book value. All inter-company transactions have been eliminated in consolidation.

Translation of Foreign Currencies: Current assets, current liabilities, long-term receivables and long-term payables are translated at the rate of exchange in effect at the close of the period. Other balance sheet accounts are translated at rates in effect when acquired or assumed. Thus for 1975, the Company substantially adopted the temporal method of translating of the accounts of its foreign subsidiaries which method will become mandatory in 1976 under FASB Opinion No. 8. The principal difference between this method and the current, non-current method used in prior years, is that long-term receivables and long-term payables are translated at the rate of exchange in effect at year-end, rather than when acquired or assumed. Had the method used in prior years been used in 1975, there would have been no material difference in the amount of translation gain or loss included in income.

Revenues and expenses are translated at weighted average exchange rates which were in effect during the year, except for depreciation and amortization which are translated at the rates of exchange which were in effect when the respective assets were acquired. Unrealized gains and losses from foreign currency translation are included in income currently. Net translation gains were $452,000 in 1975 and $1,686,000 in 1974.

For details of foreign operations and investments, see the statement on page 16 (Financial Information — Foreign Operations).

Net Income Per Share: Net income per share is determined by dividing consolidated annual net income by the average number of common shares outstanding during the year.

Provision For Income Taxes: The Company follows the generally accepted practice of providing for deferred income tax charges and credits resulting from timing differences in reporting income and expenses for financial purposes compared to the methods of reporting for income tax purposes. These timing differences arise primarily from the Company's use, for tax purposes, of accelerated depreciation and, for book purposes, accruing estimated expenses for insurance and related items. These deferred charges and credits are amortized as the timing differences later reverse. The net effect of these timing differences is shown in the comparative summary of income tax provisions on page 21. The Company has consistently reduced current federal tax provisions for investment tax credits in the year in which they arise, rather than spreading such credits over the productive life of the related equipment.

Depreciation: Depreciation is computed for financial report purposes on the straight-line method, which means that approximately equal amounts of depreciation are charged against operations each year during the useful life of each item or category of buildings, improvements or equipment. For U.S. tax purposes accelerated methods are used for depreciation of equipment.

The following are the principal rates of depreciation used for financial purposes during the year:

Store, warehouse and other buildings	2½ to 5%
Building equipment	5 to 10%
Furniture, fixtures and equipment	5 to 20%
Automotive equipment	12½ to 16⅔%
Installation costs	6⅔ to 16⅔%

Leasehold improvements include buildings constructed on leased land and improvements to leased buildings. Such buildings and improvements which are major are amortized over the shorter of the remaining period of the lease or the useful life of the buildings, while minor improvements are amortized over the shorter of the remaining period of the lease or six years. Provision for depreciation was $87,676,000 in 1975 and $79,742,000 in 1974.

Amortization of Excess Cost of Investments in Subsidiaries: The excess cost of investments in subsidiaries at date of acquisition is being amortized and charged against income in twenty equal annual amounts of approximately $218,000 starting in 1970.

Inventories: In the United States, inventories of Grocery Department items in stores (valued by the retail inventory accounting method) and warehouses are determined on a LIFO basis. All other inventories are valued at the lower of cost (on a FIFO basis) or replacement market. Periods prior to 1974 have not been restated to reflect the change in the inventory accounting method from FIFO to LIFO due to the unavailability of information necessary to do so. Inventories would have been $87,718,000 and $85,992,000 higher as of January 3, 1976 and December 28, 1974, respectively, if they were stated at the lower of cost (FIFO) or replacement market.

Properties for Development and Sale Within One Year: This entry under current assets represents the original cost of land and improvements developed for use by the Company and for which commitments have been received for sale and leasebacks during the following year.

Employee Retirement Plans: The Company's practice is to contribute the full normal cost and there is no unfunded past service liability.

Stock Options: Proceeds from the sale of stock issued under options are credited to Common Stock at par value and the excess of the option price over par value is credited to Additional Paid-in Capital.

EMPLOYEE RETIREMENT AND PROFIT SHARING PLANS. The Company and its Canadian subsidiaries have contributory, trusteed Retirement Plans which may be amended or terminated at any time, for eligible employees not covered by other plans to which the Company contributes. The assets of the trust funds are sufficient to fund vested benefits. Contributions charged to income were $8,489,000 in 1975 and $5,547,000 in 1974. The Company also incurred expenses of $46,174,000 in 1975 and $35,379,000 in 1974 for contributions to various pension plans under Union contracts.

Contributions charged to income for Safeway's U.S. and Canadian Employee Profit Sharing Plans were $12,564,000 in 1975 and $4,318,000 in 1974.

The Company's U.S. Retirement and Profit Sharing plans substantially meet the major requirements of the Employee Retirement Income Security Act of 1974; however, changes have been made effective January 1, 1976 for the Profit Sharing Plan and will be effective December 31, 1976 for the Retirement Plan. It is anticipated that these changes will not have a significant impact on future income or financial position.

TAXES ON INCOME. The provision for current and deferred tax expense included in the consolidated statement of income was as follows:

	1975	1974
CURRENT:		
Federal	$ 81,247,000	$27,132,000
Foreign	26,489,000	22,856,000
State and local	12,575,000	4,405,000
	120,311,000	54,393,000
DEFERRED:		
Federal	2,007,000	2,853,000
Foreign	4,182,000	4,162,000
State and local	—	—
	6,189,000	7,015,000
Total tax expense	$126,500,000	$61,408,000

Reconciliation of Effective Tax Rate

	1975		1974	
	Amount	Percent	Amount	Percent
Statutory federal income tax rate	$132,062,000	48.0%	$67,494,000	48.0%
Investment tax credit	(7,700,000)	(2.8)	(6,372,000)	(4.5)
State taxes on income less applicable federal taxes	6,539,000	2.4	2,291,000	1.6
All other, net	(4,401,000)	(1.6)	(2,005,000)	(1.4)
	$126,500,000	46.0%	$61,408,000	43.7%

Sources of deferred taxes and the tax effect of each were as follows:

	1975	1974
Accelerated depreciation	$ 8,087,000	$ 8,060,000
Insurance reserves	(945,000)	926,000
Small equipment purchases	(190,000)	107,000
Compensation provision	919,000	(1,823,000)
California franchise tax	(1,954,000)	150,000
Other	272,000	(405,000)
Total deferred tax	$ 6,189,000	$ 7,015,000

The Company's effective income tax rate varies from the statutory federal income tax rate as shown in the table above.

No provision has been made for income taxes which might be payable if accumulated earnings of Canadian and overseas subsidiaries were distributed to the parent company, since it is the present intention of management to reinvest such earnings permanently in foreign operations. The cumulative amount of such undistributed earnings on which the parent company has not provided for income taxes, if any, was $243,492,000 at the end of 1975 compared with $209,749,000 in 1974. Should any distribution be required, any income tax payable would be substantially offset by foreign tax credits.

United States and Canadian Corporation Income Tax Returns for all years prior to 1972 have been reviewed by taxing jurisdictions. U.S. Income Tax Returns for 1972 and 1973 are currently under review.

In April 1975 the Company paid additional U.S. Federal income taxes of $6.3 million plus interest of $2.8 million for the years 1963 through 1969. Included were taxes of $5.2 million resulting from disallowing deductions for the Company's contributions to the U.S. Employee Retirement Plan. The Company is presently filing for refunds of substantially all of these payments.

For the years 1970 and 1971, the U.S. Federal income tax deficiency of $5.3 million proposed by the Internal Revenue Service was reduced in the Appellate Division to $2.6 million which was paid in January 1976 plus interest of $0.7 million. There was no deficiency proposed for years 1970 and 1971 relating to the Company's contributions to the U.S. Employee Retirement Plan.

All retirement plan contributions and substantially all of the other deductions which may ultimately be disallowed will be carried forward as timing differences and claimed as deductions in future years.

Management believes that adequate provision has been made for payment of taxes for all past years for any deductions which ultimately might be disallowed and then could not be carried forward and claimed in future years. Any possible additional deficiencies in excess of those provided for will not result in any material adverse effect on consolidated income or financial position.

PAYABLES AND ACCRUALS. Payables and accruals at year-end consisted of the following:

	1975	1974
Accounts payable:		
Trade	$270,764,000	$234,283,000
Other	113,228,000	176,215,000
	383,992,000	410,498,000
Accrued expenses:		
Salaries, wages and other compensation	73,699,000	58,615,000
Taxes, other than income taxes	18,628,000	17,520,000
Rent, insurance and other	48,647,000	43,111,000
	140,974,000	119,246,000
	$524,966,000	$529,744,000

CAPITAL STOCK AND ADDITIONAL PAID-IN CAPITAL. Capital stock as of year-end 1975 and 1974 consisted of 220,372 shares of 4% cumulative preferred, authorized and unissued, and 75,000,000 shares of common stock authorized at a par value of $1.66⅔ per share. After deducting 45,983 treasury shares, outstanding common stock amounted to 25,932,175 shares at the end of 1975, compared with 25,855,154 shares a year earlier. The increase of 77,021 shares was attributable to stock options exercised by employees.

The increase in Additional Paid-in Capital during 1975 of $1,935,000 and during 1974 of $1,396,000 consisted of the excess proceeds over par value of shares issued under options exercised during the year.

STOCK OPTIONS. The following summary shows the changes during 1974 and 1975 in qualified stock options granted to key employees to purchase shares of the Company's Common Stock:

	Shares	Option Price
Balance, December 29, 1973	294,895	$24.88-38.81
Granted, 1974	109,650	$34.88-39.44
Exercised, 1974	57,925	$24.88-29.19
Expired, 1974	12,400	$24.88-39.44
Balance, December 28, 1974	334,220	$24.88-39.44
Granted, 1975	None	—
Exercised, 1975	77,021	$24.88-38.81
Expired, 1975	14,539	$24.88-39.44
Balance, January 3, 1976	242,660	$29.13-39.44

At the end of 1975 there were 419,990 unoptioned shares available for granting compared with 411,840 at the beginning of the year. The number of shares as to which options were exercisable was 46,620 at the end of 1975 and 80,200 at the end of 1974.

COMMITMENTS. The Company has commitments under contracts for the purchase of land and for the construction of buildings. Portions of such contracts not completed at year-end are not reflected in the financial statements. Such unrecorded commitments amounted to approximately $27,511,000 at year-end 1975 as compared to $58,575,000 for 1974.

LONG-TERM DEBT. Notes and debentures payable at January 3, 1976 consisted of:

	Due After One Year	Current Maturities
4.65% term notes payable, unsecured, due semi-annually to November 1, 1979	$ 9,000,000	$3,000,000
7.40% sinking fund debentures, unsecured, due in equal installments from 1978 through 1997	65,000,000	—
Mortgage notes payable, secured	27,487,000	1,145,000
Other notes payable	4,686,000	1,053,000
	$106,173,000	$5,198,000

The above mortgage notes payable are secured by properties which are included in the balance sheet at their book value of $29,054,000.

During 1975, two mandatory semi-annual payments of $1.5 million each were made on the 4.65% notes, which also provide certain prepayment options at varying premium rates to maturity. Mandatory sinking fund payments for the retirement of the 7.40% debentures commence in 1978. Under the agreement covering the 7.40% debentures, $302,096,000 of the retained earnings as of January 3, 1976 were free of restrictions for dividend payments and acquisitions of common stock. Other restrictions applicable to both the notes and debentures include a limitation on the creation of additional funded debt. In December 1975, $20 million 8¾% unsecured notes payable guaranteed by Canada Safeway Limited were retired upon maturity.

Aggregate annual maturities of long-term debt for the next five years are:

	Notes & Debentures	Mortgage Notes
1976	$4,053,000	$1,145,000
1977	3,915,000	1,220,000
1978	6,964,000	1,239,000
1979	6,643,000	1,349,000
1980	3,556,000	1,508,000

RENT EXPENSE AND LEASE COMMITMENT INFORMATION. Safeway and its subsidiaries occupy primarily leased premises, which were covered by 3,195 leases at year-end. Of these leases 2,580 are considered to be noncancelable, financing leases as defined by the Securities and Exchange Commission because the lease term covers at least 75% of the useful life of the property or the lease has provisions which, over the original term, assure the lessor full recovery of his investment in addition to a reasonable return on such investment. Also, 1,646 of the total leases can be cancelled by the Company by offer to purchase the properties at original cost less amortization, with purchase obligatory upon acceptance of the offer by the landlords. There were no significant amounts of property, other than real property described above, under lease during 1974 and 1975.

A summary of rental expense for such financing leases and other leases for 1975 and 1974 follows:

	(In Thousands) 1975	1974
Financing leases:		
Minimum rent	$120,094	$106,320
Rent based on sales	8,680	5,874
Less sublease rentals	(6,982)	(5,255)
	121,792	106,939
Other leases:		
Minimum rent	9,228	7,843
Rent based on sales	1,317	785
Less sublease rentals	(733)	(510)
	9,812	8,118
Total rent expense	$131,604	$115,057

Minimum rentals on all leases in effect at year-end and rental amounts included therein relating to financing leases, other leases and sublease rental income were approximately as shown in the following table for the periods indicated.

MINIMUM RENTAL AMOUNTS (in thousands)

	Net All Leases	Financing Leases	Other Leases	Rental Income Sublease: Financing Leases	Rental Income Sublease: Other Leases
1976	$128,976	$119,731	$16,036	$ 6,148	$643
1977	128,351	119,140	15,562	5,766	585
1978	126,881	117,587	15,175	5,401	480
1979	124,953	115,138	15,063	4,854	394
1980	122,050	111,299	15,352	4,354	247
1981-1985	535,532	479,092	71,785	14,581	764
1986-1990	390,091	331,339	63,360	4,256	352
1991-1995	210,898	157,543	54,938	1,318	265
After 1995	150,113	52,432	99,826	2,135	10

The present value of minimum lease commitments for financing leases was $951,810,000 (after having deducted $33,462,000 for subleases) at year-end and $870,013,000 (after having deducted $17,360,000 for subleases) at the end of 1974. The ranges of rates used were from 3.00% to 9.25% in 1975 and 1974, and weighted average interest rates were approximately 6.8% in 1975 and 6.5% in 1974.

If, instead of recording rental expense, all financing leases were capitalized, related assets were amortized on a straight-line basis and interest costs were accrued on the basis of the outstanding present value, the impact on net income would be a reduction of $7,427,000 in 1975 and $6,579,000 in 1974. Included in this computation for 1975 was amortization of $57,264,000 and interest cost of $66,935,000; for 1974, amortization was $53,151,000 and interest cost was $59,207,000.

CONTINGENT LIABILITIES—LITIGATION. In addition to various claims and lawsuits arising in the normal course of the Company's business, as of March 5, 1976, there are actions pending against the Company charging violations of the anti-trust laws and certain Civil Rights statutes, some of which purport to be class actions and seek damages in very large amounts, as well as other relief which, if granted, would require very large expenditures.

The 1974 Annual Report noted the filing of an anti-trust suit against the Company and others by seven Texas livestock producers and feeders charging violations of the law in the purchase and sale of meat. That action was dismissed as to the Company by stipulation in February, 1976, with prejudice to the named plaintiffs. The 1974 Report also noted that similar actions might be filed against the Company by other livestock producers and feeders. Five substantially similar actions were filed against the Company and others in 1975 in Federal District Courts in California, Iowa, Nevada and Texas. All are in the preliminary stages of discovery and, consequently, Management is unable to predict the ultimate outcome of any of them. However, in the opinion of Management, the Company has good and meritorious defenses to each action and should prevail in all.

Although the amount of liability at January 3, 1976 with respect to all of the above matters cannot be ascertained, Management is of the opinion that any resulting liability will not materially affect the Company's consolidated income or financial position.

ACCOUNTANTS' REPORT

Peat, Marwick, Mitchell & Co.

To the Board of Directors and Shareholders of Safeway Stores, Incorporated:

We have examined the consolidated balance sheets of Safeway Stores, Incorporated and subsidiaries as of January 3, 1976 and December 28, 1974 and the related consolidated statements of income and retained earnings and changes in financial position for the two years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Safeway Stores, Incorporated and subsidiaries at January 3, 1976 and December 28, 1974 and the results of their operations and changes in their financial position for the two years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

2150 Valdez Street
Oakland, California 94612
March 5, 1976

Peat, Marwick, Mitchell & Co.

EXECUTIVE COMMITTEE

Robert A. Magowan
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Ernest C. Arbuckle
J. G. Boswell II
Percy Chubb III
Charles de Bretteville
Roger D. Lapham, Jr.
Merrill L. Magowan
W. S. Mitchell
Quentin Reynolds
W. Maurice Young

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Chairman of the Board

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Chairman of the Board
Wells Fargo Bank

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J. G. Boswell Company
(Farming and related business)

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Henry B. Clay
Senior Vice President

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Lorenzo N. Hoopes
Senior Vice President

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Chairman & Managing Director
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(Insurance brokerage)

Merrill L. Magowan
An Office Manager of
Merrill Lynch, Pierce,
Fenner & Smith Incorporated

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G. H. Parker
Senior Vice President

W. Maurice Young
Chairman of the Board
and Chief Executive Officer
Finning Tractor and Equipment Company, Ltd.

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and Chief Executive Officer

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Senior Vice President — Retail

Clifford L. Gant
Controller

Malcolm P. Grover
Senior Vice President
Personnel, Public Affairs,
Industrial Relations and
Economic Research

Lorenzo N. Hoopes
Senior Vice President
Supply Operations

Philip G. Horton
Vice President
Real Estate, Construction and
Engineering, Operations Services

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Vice President and Treasurer

G. H. Parker
Senior Vice President — Retail

Robert J. Van Gemert
Vice President and Secretary
General Counsel

VICE PRESIDENTS — RETAIL

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Basil M. Winstead
Forrest Woolery

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Calvin P. Pond
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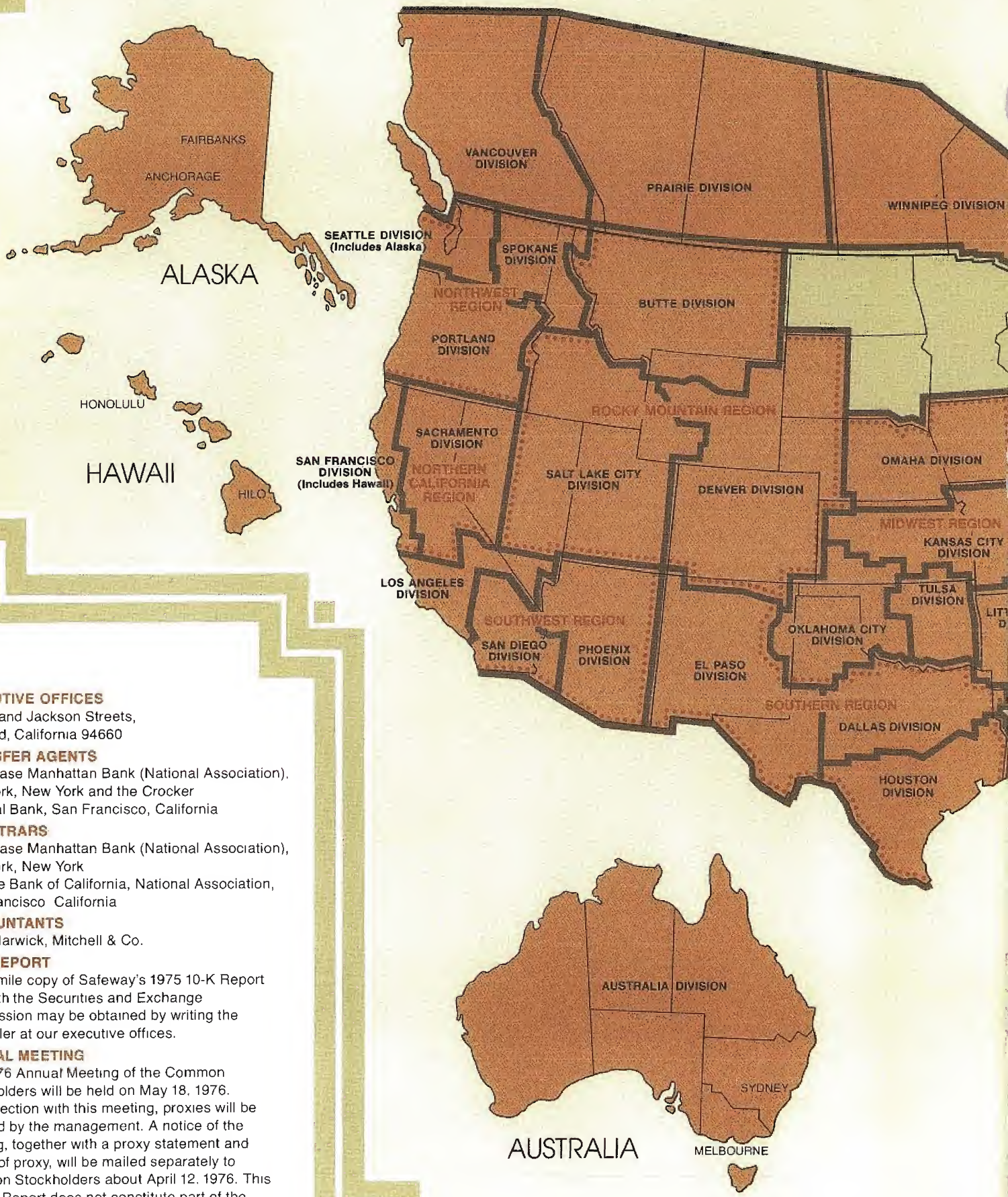
Herman F. Weber



EXECUTIVE OFFICES
Fourth and Jackson Streets,
Oakland, California 94660

TRANSFER AGENTS
The Chase Manhattan Bank (National Association), New York, New York and the Crocker National Bank, San Francisco, California

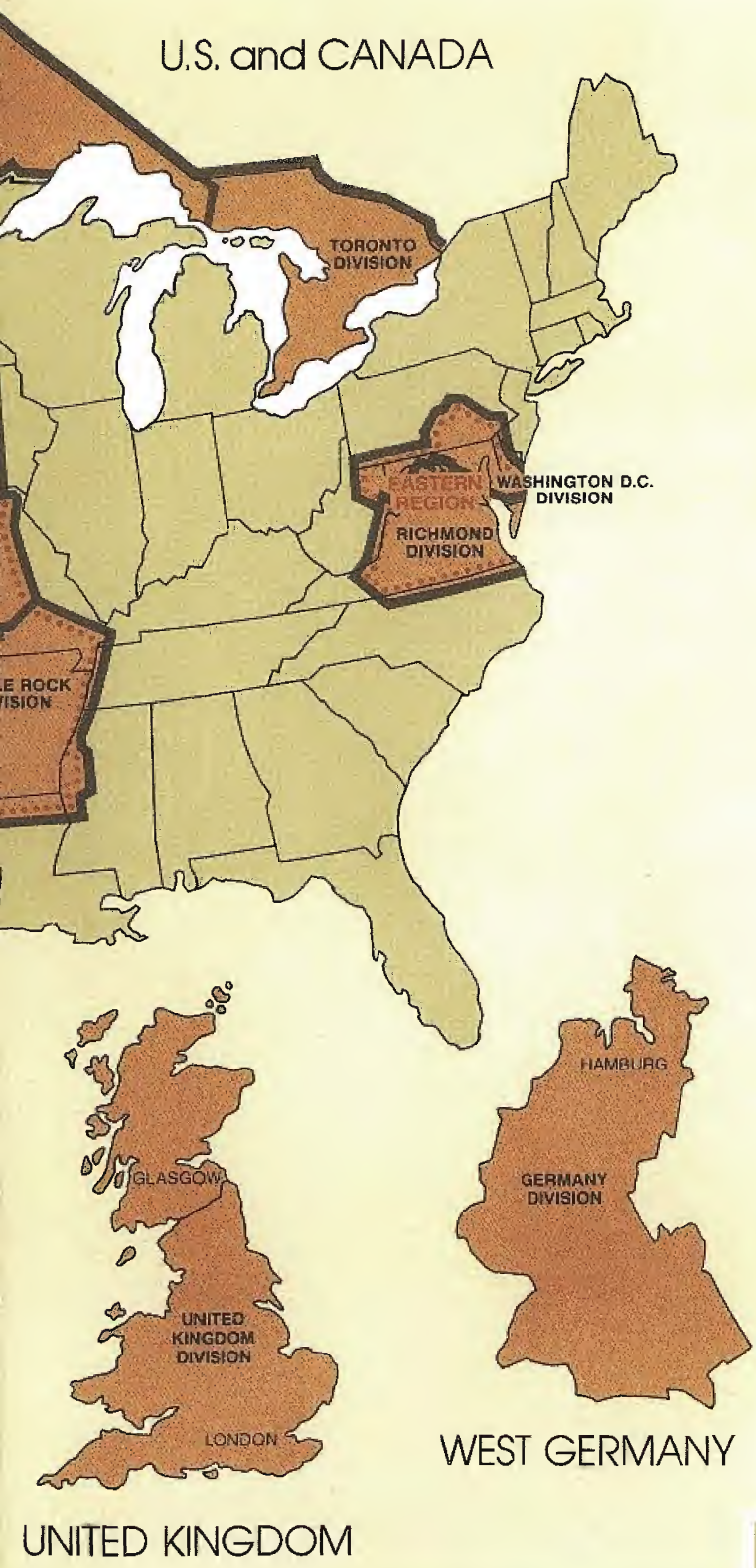
REGISTRARS
The Chase Manhattan Bank (National Association), New York, New York
and The Bank of California, National Association, San Francisco California

ACCOUNTANTS
Peat, Marwick, Mitchell & Co.

10-K REPORT
A facsimile copy of Safeway's 1975 10-K Report filed with the Securities and Exchange Commission may be obtained by writing the Controller at our executive offices.

ANNUAL MEETING
The 1976 Annual Meeting of the Common Stockholders will be held on May 18, 1976. In connection with this meeting, proxies will be solicited by the management. A notice of the meeting, together with a proxy statement and a form of proxy, will be mailed separately to Common Stockholders about April 12, 1976. This Annual Report does not constitute part of the proxy soliciting material.

SAFEWAY TODAY



Regions and Divisions

As of fiscal year-end Safeway and its subsidiaries operated 2,451 stores in the United States, Canada, the United Kingdom, West Germany, and Australia. Regional Managers of the Northern California Region (a Sr. V.P.) and the Canada & Overseas Region report to the President, as does Henry B. Clay, Sr. Vice President in charge of the other six Regions.

NORTHERN CALIFORNIA REGION
G. H. Parker

SACRAMENTO DIVISION, Frank J. Glasgow, 99 Stores
SAN FRANCISCO DIVISION, Eldon W. Starkey, 207 Stores

NORTHWEST REGION
Dale L. Lynch

PORTLAND DIVISION, Fred E. MacRae, 93 Stores
SEATTLE DIVISION, William H Maloney, 120 Stores
SPOKANE DIVISION, Gerald V Curtright, 40 Stores

ROCKY MOUNTAIN REGION
Floyd H. Gifford

BUTTE DIVISION, Harold J. Lekic, 36 Stores
DENVER DIVISION, Pete P Martin, 154 Stores
SALT LAKE CITY DIVISION, Allen Francis, 66 Stores

SOUTHWEST REGION
Robert L. Jaynes

LOS ANGELES DIVISION, John L. Repass, 164 Stores
PHOENIX DIVISION, Henry J Frank, 55 Stores
SAN DIEGO DIVISION, John W. Warthan, 78 Stores

SOUTHERN REGION
Horace A. Justice

DALLAS DIVISION, Carey A. Ford, 173 Stores
EL PASO DIVISION, Robert E Livesay, 60 Stores
HOUSTON DIVISION, Sam E. Raburn, 55 Stores

MIDWEST REGION
James E. Rowland

KANSAS CITY DIVISION, W. W Liedtke, 108 Stores
LITTLE ROCK DIVISION, Jack L. Anderson, 75 Stores
OKLAHOMA CITY DIVISION, Forrest Woolery, 70 Stores
OMAHA DIVISION, William M. Langley, 82 Stores
TULSA DIVISION, Peter A. Magowan, 51 Stores

EASTERN REGION
Basil Winstead

RICHMOND DIVISION, Ralph C Ward, 72 Stores
WASHINGTON, D.C. DIVISION, John Bell, 168 Stores

CANADA & OVERSEAS REGION
Canada Safeway Limited and Subsidiaries
John S. Kimball

PRAIRIE DIVISION, A. G Anselmo, 112 Stores
TORONTO DIVISION, N M Knebel, 16 Stores
VANCOUVER DIVISION, T. Milburn, 93 Stores
WINNIPEG DIVISION, W F Griffiths, 50 Stores
AUSTRALIA DIVISION, J W. R. Pratt, 50 Stores
GERMANY DIVISION, M. J. Filzek, 22 Stores
UNITED KINGDOM DIVISION, T E Spratt, 82 Stores

SAFEWAY STORES, INCORPORATED • OAKLAND CA 94660

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